

CVP Cost Allocation Study Technical Team Recommendation on Allocation of New Melones Unit Costs

Date

February 27, 2014

Purpose of Paper

Technical Team Recommendation on should the Corps of Engineers Allocation for New Melones Unit Be Used for the CVP Cost Allocation

Current Status

The New Melones Unit was first authorized by the Flood Control Act of 1944 and reauthorized by Section 203 of the Flood Control Act of 1962. The project was authorized to be constructed by the Corps of Engineers (Corps), in accordance with House Document No. 453, and upon completion, was to be transferred to Reclamation so that it could be operationally and financially integrated into the Central Valley Project.

Reclamation has been using the Corps' cost allocation for the New Melones Unit since its inception. For example, in the previous two cost reallocation studies for the CVP (e.g., 1970 and 1975) Reclamation used the Corps-provided cost allocation for New Melones. Although the project was placed into service in 1981, Reclamation has continued to use the Corps-provided allocation factors for New Melones when allocating annual plant-in-service costs for the CVP. With the project now in operational status and Reclamation undertaking a cost reallocation update, is it appropriate to continue using the Corps-provided allocation, or should Reclamation develop its own allocation factors for New Melones? When answering this question, it is important to consider the current Corps allocation of assigning approximately \$50 million in costs to the recreation purpose. In the Corps cost allocation, the assumption was made that there would be a large development of recreation at New Melones. However, recreation development did not occur as expected. Therefore, if Reclamation assumes the responsibility for determining cost allocation factors for the New Melones Unit, the amount of costs assigned to recreation will diminish significantly.

Reclamation requested a legal review of this question from its assigned attorney in the Solicitor's Office. Reclamation's assigned attorney conducted an informal



legal review, and based on that review, the attorney concluded that there was no governing authority which precluded Reclamation from developing and assigning its own cost allocation factors for the New Melones Unit. Specifically, the attorney concluded that the authorization transferred responsibility for the unit to Reclamation so that it could be operationally and financially integrated into the CVP. Similar to what was done earlier with Folsom Dam and Reservoir, the attorney analogized that since the Corps had transferred the New Melones Unit to the responsibility of Reclamation, Reclamation had the authority to undertake any and all necessary arrangements to develop and implement its own cost allocation. When updating the revised cost allocation for the New Melones Unit, it is important to ensure that all of the authorized project purposes are properly identified and included in any successor cost reallocation.

Recommendation

Based on the conclusion of Reclamation's legal advisor, the Technical Team recommends that Reclamation assume responsibility for determining the cost allocation factors for the New Melones Unit.

If you have further questions, please contact Brooke Miller-Levy at (916) 978-5296, or bmillerlevy@usbr.gov.